TRUSTS & ESTATES
ESTATE PLANNING & ADMINISTRATION
A Publication of Communication Channels Inc.
OCTOBER 1992

Trust Marketing:
The Old Days Are Gone Forever

More on the Family Limited Partnership

TRUSTS & ESTATES

Volume 131, No. 10 Estate Planning and Administration since 1904 OCTOBER 1992

Trust Marketing

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About The Cover

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Editor's Notes

Bringing All The Pieces Together To Form A Whole

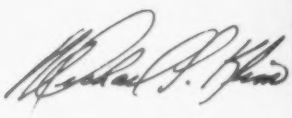
Much like in estate planning, anticipation is a significant and crucial part of magazine publishing. Ideas are conceptualized and plans are made well in advance and, with a little talent and a lot of luck, all of the various elements of the production come together in the end to form an effective and cohesive whole.

This month is a prime example of such a production. Although the cover lines this month - "The Old Days Are Gone Forever" - were decided upon previous to receiving final drafts of the trust marketing features, the articles could not have more clearly reflected the theme.

Each of the features, in its own way, describes how the trust market has changed and how the business practices of the past have given way to new strategies for the future. In fact, each of these articles also discusses part of what should, like an estate plan or a magazine, be fused into a whole.

Primary and essential questions such as: Who is my market? Where is the revenue? Where are the new opportunities? What products and services should I be offering? How should I advertise these products and services? and How can I get and keep good salespeople? should all be part of the marketing mix. Today's trust officer, if he or she is looking to prosper and flourish, should realize that the old answers may no longer apply in today's competitive situations.

We hope these articles will give you new answers to some of your questions and help you anticipate the future so that you too can prepare a solid plan.



TRUSTS & ESTATES (ISSN-0041-3682) is published monthly (with a 13th issue published in December) by Communication Channels, Inc. Jerrold France, President; Lawrence Moores, Executive Vice President; Buford Bryant, Treasurer. Editorial and advertising offices at 6255 Barfield Road, Atlanta, GA 30328. Telephone (404) 256-9800. Washington office at 4425A Forbes Blvd., Lanham, MD 20706. Telephone (301) 731-0157. TRUSTS & ESTATES is a registered trademark of Communication Channels, Inc. © 1992 by Communication Channels, Inc. Second class postage paid at Atlanta, GA and additional mailing offices. Subscription rates: U.S.A., 1 year, $70; 2 years, $112; outside U.S.A. (surface mail) 1 year, $90; (airmail) 1 year, $140. Single copies, $10.00 including postage. *The Directory of Trust Institutions* is included in the subscription; single copies, $49.95; outside U.S.A., $64.95. The opinions expressed by authors and contributors to TRUSTS & ESTATES are not necessarily those of the editors or publisher. Articles appearing in TRUSTS & ESTATES may not be reproduced without the express written permission of the publisher. Microfilm copies of TRUSTS & ESTATES are available from University Microfilms, 300 N. Zeeb Road, Ann Arbor, MI 48106. Postmaster: Please send form 3579 to Fulfillment Department, TRUSTS & ESTATES, P.O. Box 41369, Nashville, TN 37204-9913.

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Trust Marketing

The Affluent Market And Its Investment Potential

As the market continues to grow, wealthy consumers are generating significant amounts of financial services revenue

By **JOHN J. DeMARCO**
PSI
Tampa, FL

In the October 1990 issue of TRUSTS & ESTATES, PSI, Tampa, Fla., used the results of its annual surveys of affluent consumers to examine the dynamic growth of the market, its changing characteristics, its use of financial and investment products, and changes in the use of personal trust and investment management during the 1980s. In this article, the company updates its look at the affluent market and examines what appears to be one of the best opportunities in years for providers of personal trust and investment management.

PSI surveys about 2,000 affluent households each year in order to take a comprehensive look at their financial behavior and preferences. Since 1981, they have examined the financial and investment products that they own, the institutions and providers they deal with, and the amount of revenue they produce. Their goals, attitudes and preferences also are detailed.

Where The Revenue Is

Wealthy are the company's focus for the obvious reason — they generate significant amounts of financial services revenue. Among all 94 million U.S. households, an average revenue of $3,389 annually per household is generated from depository, credit, investment and insurance products. A typical mass market household generates $1,174 per year. Among the nation's 2.1 million millionaire households, an average of $20,365 per year is generated. Millionaires, constituting 2.2 percent of all households, generate $43.3 billion annually in financial services revenue, over 13 percent of all consumer revenue. On average, one millionaire customer is worth over 17 mass market customers. For some businesses, such as personal trust, investment management and private banking, the affluent market provides virtually all revenues.

Growth In Size And Opportunity

For many years, much less attention than one would think was paid to affluent consumers by the industry. The prevailing view was that affluent consumers were very small in number and that they already had strong relationships with financial providers. It was thought that they would not consider using new products or new providers and that a conscious strategy of targeting them for new business would be a *waste of time*. Instead, trust providers, private banking units, and investment companies sought to maintain a stream of business from their current wealthy customers. The 1980s changed the market, and it changed that kind of thinking. A combination of demographic and macroeconomic developments resulted in spectacular growth in the size of the affluent market:

- A booming stock market saw the value of many investments more than triple (the setback in 1987 lasted only about one year);
- real estate values also increased dramatically during the first part of the decade (real estate did poorly following tax reform in 1986);
- baby boomers, representing over one third of all households, began to enter their peak earning years, and they were better educated than their predecessors, thus achieving higher incomes;
- more and more households contained two income earners, further boosting household income;
- entrepreneurial activity flourished, the number of affluent business owners more than doubled, numbering almost one million by 1991; and,

• the top income tax rate fell from 70 percent in 1980 to 28 percent by 1990.

No matter how you define affluence, the number of wealthy individuals more than doubled during the 1980s, and the growth is continuing. For example, the number of households with a net worth (not including the home) in excess of $1 million increased by 91 percent during the past five years, from 1.1 million in 1987 to 2.1 million in 1991. PSI estimates that by 1996 there may be as many as 4 million millionaire households. The number of tax returns reporting an annual income to the IRS greater than $1 million increased by 1,350 percent from 4,414 in 1980 to 63,642 in 1990. The number of households with incomes over $200,000 increased 16.8 percent in the one year 1990-1991 to over half a million households. From 1977 to 1989, the annual income of the average U.S. household increased 9 percent in constant dollars, while the average income of the top 1 percent of income earners more than doubled to over $400,000. Despite the recent recession, the growth of high net worth and high income households shows no signs of diminishing.

A great number of people have achieved affluent status in a relatively short period of time. Over 80 percent of today's affluent created their own wealth. Many of these consumers have not yet had a chance to form strong bonds with one set of financial and investment providers. Their business can be acquired, and they do have unmet needs. For example, our 1991 survey showed that over 500,000 millionaires say they want the kind of service that private banking units typically provide, and they are not currently doing business with a private banking unit. Another example — average assets held in investment management accounts by millionaires increased 19.7 percent during the one year 1990-1991 to almost $500,000.

Millionaires, who were not great users of mutual funds, became heavy mutual fund investors during the 1980s (72 percent now own funds) and not just from the full service brokerage firms they traditionally dealt with. Over 42 percent use mutual funds from mutual fund companies such as Fidelity, Dreyfus and Franklin.

Wealthy consumers are growing in number, they are using new products and services, and new institutions are capturing significant shares of their business. If, as the Census Bureau reports, the middle class continues to decline in number and wealth, affluent consumers should be increasingly important contributors to the revenues of banks and investment firms.

EXHIBIT 1

Today's Millionaires

Number of households	2,100,000
Average age of household head	56
Percent over 65	25
Percent married	84
Percent with dependent children	36
Percent of households where the male is responsible for financial decisions	48
Percent college graduates	78
Percent retired	36
Present or former occupation:	
Accountant	2%
Attorney	8%
Senior corporate executive	22%
Business owner	22%
Investor	4%
Manager	7%
Physician	9%
Other	26%
Own a business or professional practice	61%
Does personal banking at same institution where keeps business accounts	67%
Average annual income	$137,000
Percent of income from salaries or professional fees	54
Average net worth	$1,970,000
Average investable assets	$2,300,000

EXHIBIT 2

Distribution Of Assets

Stocks and bonds	19.7%
Investment real estate	19.6%
Personal trusts	18.8%
Investment management accounts	12.5%
Depository accounts	9.9%
Closely held businesses	8.2%
Mutual funds	6.1%
Cash value of insurance	5.1%

Today's Millionaires

In some ways, today's millionaires are similar to yesterday's. They are married, well educated, and most likely to be senior corporate executives or business owners. However, there are significant differences. They are younger as a group than they have ever been, more of them come from "nontraditional" occupations, and financial decision making within the household is no longer totally male dominated. (See Exhibit 1.)

As recently as 1990, the average age of millionaires was 61. A large influx of younger consumers attaining millionaire status brought the average age down to 56 in one year. This is significant because it means there are now many more "recently minted" millionaires who need advice, products, and new financial and investment providers.

Millionaire households are predominantly married couples without dependent children. This has not changed over the years. What has changed is the increasing importance of the role of women in financial decision making. In 52 percent of millionaire households, a woman is involved in making significant financial and investment decisions.

Banks and investment companies will have to factor this trend into their advertising and sales efforts.

Younger ages mean fewer retirees. In 1990, 42 percent of millionaire households were retired; this year only, 36 percent are retired. Thus, a larger proportion and number of millionaires are still in the wealth-building stages of their lives. Product and service use will reflect their status. For example, we would expect millionaires to be more attracted to investment management services designed to increase wealth than in conservative portfolios designed to provide income.

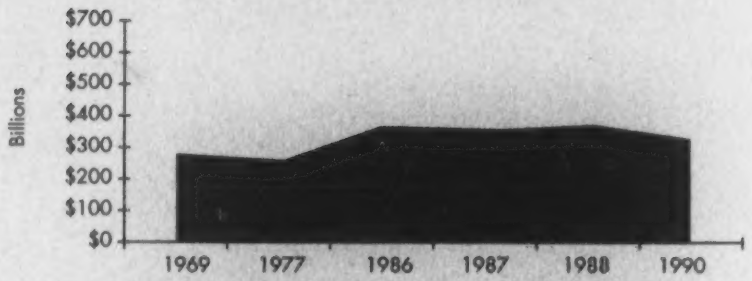
The occupations of millionaires tell us several things. First, as most bankers and investment professionals know, prospecting for millionaires is most successful among senior executives and owners of companies. They account for almost half of all millionaires. The so-called visible professions of law and medicine continue to supply a relatively small number of the truly wealthy. Almost one in four millionaires do not fit into the traditional occupational classifications. These consumers are successful athletes, people in the entertainment industry, consultants, and specialists in new technologies such as computers and biotechnology.

Almost two-thirds of millionaires own or share ownership in a business or practice. And, of those, 67 percent do their personal banking where they do their business banking. The commercial side of the bank will continue to be an important access point to the wealthy.

The average income of millionaires has declined significantly from $260,000 in 1990 to $137,000 in 1991. Net worth declined from an average of $2,370,000 in 1990 to $1,970,000 in 1991. Two factors are responsible. First, the influx of over 300,000 younger millionaires has brought the averages down because recent entrants to the millionaire club tend to be the least wealthy. Also important has been the decline in interest and dividend income, which account for about one third of all income. As a group, however, millionaires controlled more wealth in 1991 than they did in 1990.

EXHIBIT 3

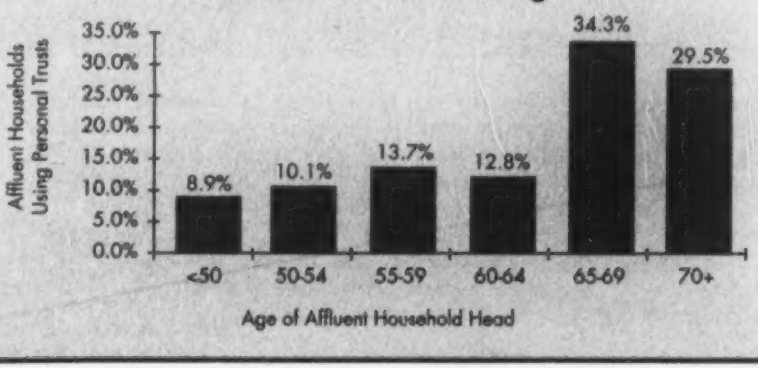
Total Testamentary, Living, And Custody Trust Assets At Banks In Constant 1982 Dollars



Sources:
Trust Fact Book, Washington, D.C.: American Bankers Association, 1980.
Trust Assets of Insured Commercial Banks – 1977, Washington, D.C.: FDIC.
Trust Assets of Financial Institutions – 1988, Washington, D.C.: FDIC.
PSI Affluent Market Research Program, Tampa: PSI, 1987, 1990.

EXHIBIT 4

Trust Use Increases With Age



Holdings

Millionaires hold the bulk of their wealth in stocks and bonds, real estate and personal trusts. (See Exhibit 2.)

One of the more important observations to be made when examining the assets of the wealthy is the high degree of diversification in their holdings. This is a quite conscious strategy on their part. It also has the effect of preventing any single provider from seeing the bulk of their business. With few exceptions, wealthy current customers of almost any type of institution have considerable assets elsewhere. The practical implication is the importance of cross-selling current customers.

Fall And Rise Of Personal Trust

From the late 1970s to 1990, the personal trust business in the U.S. went through a period of decline, not in the sense of absolute decline in assets under management or personal trust revenue, but decline in the sense that while the affluent market was growing rapidly in size, personal trust was not. The year 1990 may be recorded as the turning point. Recent research suggests that personal trust use may be on the rise.

Personal trust is seen as a specialty product. The decline began with consumers' perceptions of why someone would obtain a personal trust. Consumers view trusts as a way of passing assets to the next generation and avoiding inheritance taxes. Trusts are not viewed as a way of obtaining professional money management, building wealth, or securing an income stream. Only 13 percent of trust users say they set up their trusts to take advantage of professional investment management. Over 46 percent said in our 1991 sur-

vey that they set up their trusts to pass assets to heirs and 42 percent said that tax avoidance was their objective. Thus, in the minds' of consumers, trusts are part of the final stage of one's life.

Longer and less certain retirement leads to less interest in trusts. During the first half of this century, it was not unusual for a person to retire at 65 and die a few years later. However, people are living much longer now. Today, a wealthy individual may retire at 55 and look forward to 20 or 30 years of retirement. This demographic change has prompted two changes in wealthy peoples' thinking. First, they can no longer be sure that even a few million dollars will provide a comfortable life style for such a long period of time, especially when economic disruptions of the 1970s and 1980s, such as oil embargoes, hyperinflation and stock market crashes, are considered. Even though they are retired, they see the need to continue some measure of wealth building to keep pace with inflation, if nothing else. However, they do not view trusts as the vehicle to accomplish this objective. Second, they increasingly view the setting up of trusts as something to be done later as they approach the end of their lives, not at the "young" age of 65 or 70. In general, these trends apply not to the very small group of very wealthy people, but to the much larger group of consumers with $1 to $5 million in assets.

Personal trusts did not share in the growth of the affluent market. The results of these trends during the 1970s and 1980s were a decline in the numbers of affluent consumers setting up trusts, an increase in the average age of trust customers (from 54 in 1987 to 61 by 1990), and a period of stability (some said stagnation) for the personal trust industry as a whole. At the same time, the size of the affluent market was growing rapidly.

While there were fewer affluent trust accounts, the average value of assets in those accounts continued to increase, aided by good management, a good bond market and a good stock market. Thus, total assets being managed by trust providers (and fees which are tied to assets) actually held steady from the late 1970s to 1990, as shown in Exhibit 3. Most trust providers were not suffering during this period. On the contrary, they were producing significant and dependable streams of profit. (See Exhibit 3.)

This apparent success was probably one of the most significant obstacles to change during the 1980s. Many trust providers were not convinced that there were lost opportunities and that innovative marketing and product development efforts were necessary to combat a true decline. For far too many trust providers meant that "selling" consisted of not blocking the door so as to keep customers from coming in.

Waiting for the demographic boost. During the mid-80s, many observers responded to research which indicated that fewer affluent trust customers, increased average ages and stagnant revenues by pointing out that sooner or later personal trust use would receive a boost from demographic trends. The increase in older wealthier consumers would eventually result in more trust business. PSI agreed with the observation, but also noted that it would take time for the demographic trend to become strong enough to counteract declining or at least postponed interest in personal trusts.

This was exactly what happened. Despite the growth of the affluent market, the use of personal trust declined through the year 1990.

Turning the corner. Older, wealthier consumers are most in need of and most likely to use personal trusts. Exhibit 4 shows that even among affluent consumers, usage is not substantial until after age 65. Similarly, Exhibit 5 shows that the use of trusts becomes measurable when net worth exceeds $500,000, significant when net worth exceeds $1 million, and almost mandatory when net worth is over $10 million.

The number of households with a net worth over $500,000 and headed by an individual older than 65 has been increasing dramatically. Exhibit 6 shows a 217 percent increase between 1983 and 1991.

PSI believes that this growth trend was finally strong enough by 1991

EXHIBIT 5

Trust Use Increases With Net Worth

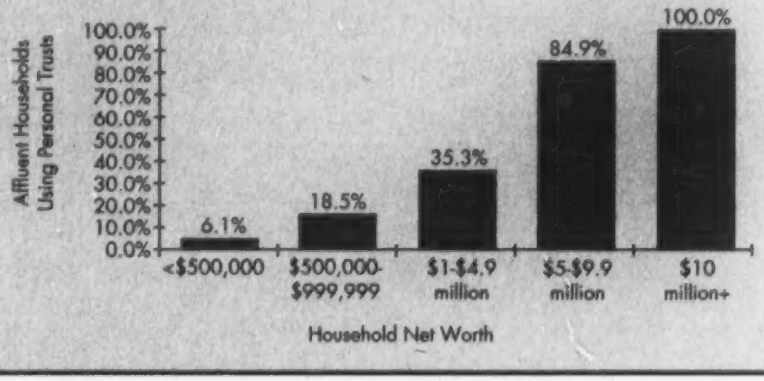
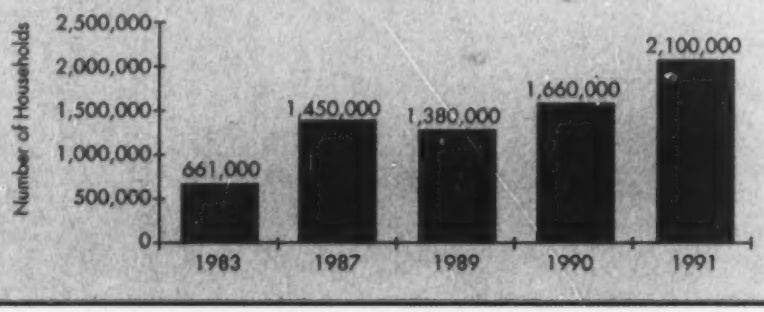


EXHIBIT 6

Over 65 With A Net Worth Of $500,000 Or More



to more than offset decreased or postponed interest in trusts. Exhibit 7 shows that trust use among the affluent reached its lowest level in 1990 and grew by an encouraging 38 percent during 1991. Banks, as trust providers, show an even better growth rate, 53 percent from 1990 to 1991 (Exhibit 8).

Almost 14 percent of the 15.8 million wealthiest households in the U.S. (one definition of the affluent market) are now using testamentary or living trusts or custody accounts. A total of 16 percent or 2.5 million affluent households use personal trusts including insurance funded trusts, IRA rollover trusts and Keogh trusts, which PSI did not measure until recently. Usage by type of trust is shown in Exhibit 9.

Of course, one rising year is not yet a trend. The 1992 survey will verify the market's direction.

All of our discussions with trust professionals and industry observers corroborate the findings of PSI's surveys. Most trust providers are reporting that business is up significantly.

Marketing efforts also are increasing. While demographic changes are primarily responsible for the observed upturn in trust use, PSI is convinced that the marketing efforts of trust providers are also partly responsible. The company has noted considerable, recent activity on the part of banks and investment companies to actively sell personal trusts. Some of the more recent developments include:

- Growing use of dedicated sales forces by bank trust departments;
- Increased emphasis on trusts by full service brokerage firms;
- Fidelity Investments and Charles Schwab & Co. marketing trust services through advertising and direct mail;
- Compare this year's BMA Trust Marketing Conference to conferences held just a few years ago; the emphasis on selling and the level of sophistication have come a long way.

The trend toward integrating bank personal trust units into comprehensive private banking programs is also part of the recent movement to more active selling of trust services.

You can only put it off so long. A final ingredient in the rise of trust use is coming and will come into play when wealthy consumers who postponed a concern for passing assets to the next generation because of their expectations for a longer life finally reach the last chapters in their longer lives. An increasing number of trusts probably will be acquired by those well beyond 65 years of age.

The next few years should be very good. The natural market for trust services has grown and will continue to increase. Trust providers are getting better and better at identifying prospects and closing sales. The next few years should be very good ones for the trust industry.

For this reason, now is the time to invest in trust marketing and sales efforts. A first-rate sales force, the best administrators and good service should yield excellent returns.

The first place to start is among current trust customers. PSI's 1991 survey showed that one in five current trust users is planning to set up a living trust within the next year. Exhibit 10 shows planned use by current trust customers.

Investments in marketing and sales efforts are probably best made sooner rather than later. An increase in competition usually follows an increase in business. As trust use grows and the success of industry leaders becomes apparent, heightened competition will make selling more difficult.

EXHIBIT 7

The Decline In Personal Trust Use May Be Over

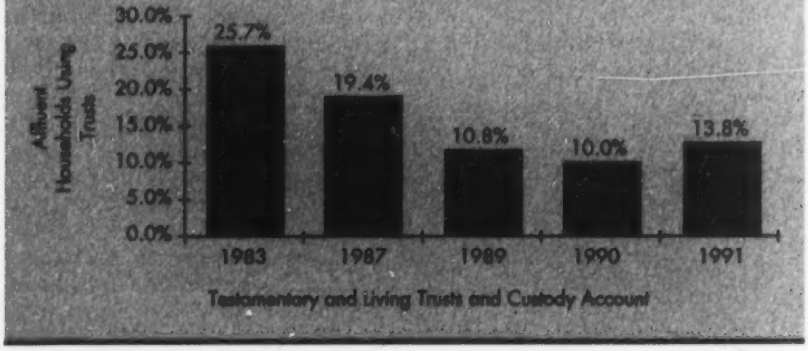
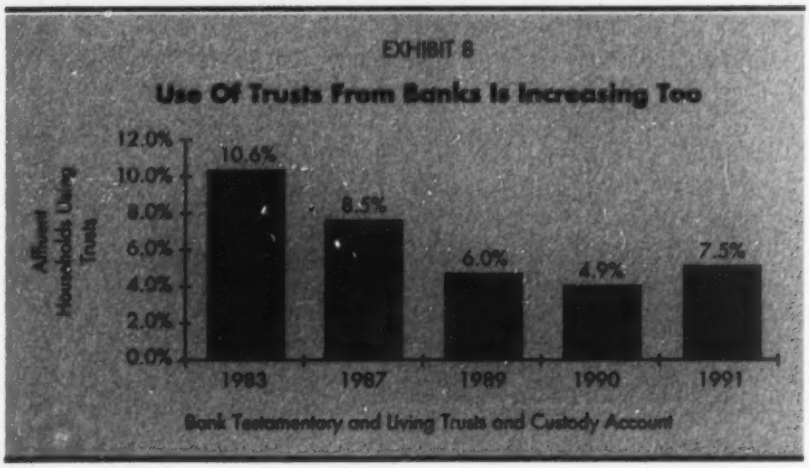


EXHIBIT 8

Use Of Trusts From Banks Is Increasing Too



Investment Management

Investment Management (IM), at its broadest, refers to consumers paying professionals to manage assets for them. This broad definition could include most trust accounts and all mutual funds, but those two categories are usually considered separately. When PSI refers to investment management in its research, they are including customized portfolios managed by professionals. These portfolios can take the form of discretionary accounts and wrap-

fee versions of those accounts at brokerage firms, personal portfolios at banks and investment firms and managed retirement accounts.

Investment Management has widespread appeal. Unlike trusts, which are viewed as specialty products, consumers will consider IM accounts to meet a wide range of objectives from wealth preservation and income to growth to aggressive growth to speculation. For this reason, IM appeals to a broad spectrum of affluent consumers. While only 16 percent of the wealthiest 15.8 million households have personal trusts, half of them have an IM account averaging $297,000 in value. Even among younger and less wealthy affluent consumers, 37 percent have IM accounts, though with smaller average values. Among consumers with an income over $75,000 or a net worth over $300,000, there is widespread use across all age and wealth categories.

Growth is impressive. During the past year, 1.7 million affluent households began using IM accounts while average assets under management increased 61 percent. IM is now a $2.3 trillion business generating $33.5 billion per year in revenue. This growth rate is reminiscent of what was happening to mutual funds during the early 1980s.

Reports from investment companies and asset management firms support our survey findings. Billions of dollars are flowing into IM accounts. Subject to normal market cycles, the trend should continue for at least several years.

Consumers turning to IM for service and higher yields. Consumers are turning to investment managers for three primary reasons. First, consumers are reacting to the long term trend of ever greater complexity in the investment environment by turning to professionals for help, just as they did with mutual funds during the 1980s. The attraction of IM accounts is that they are customized to meet individual objectives and they usually entail a much higher level of service and hand-holding than mutual funds. Second, consumers are turning to IM accounts in search of higher returns in today's low interest rate environment. Finally, investment companies and banks are pushing IM accounts because they have a higher profit margin and less turnover than mutual funds and because they generate a more predictable revenue stream than trading commissions. They are getting more customers because they are selling.

IM and personal trust are complementary. Investment management and personal trust appeal, to a great extent, to very different kinds of consumers. While most trust customers are also IM customers, the reverse is hardly true. Thus, they need to be positioned differently, marketed differently, and sold differently. However, they are naturally complementary in that they meet consumers' needs at sequential stages of the life cycle. IM is appropriate for wealth building, wealth preservation and income generation. Personal trust takes over as the welfare of the next generation becomes more and more important.

Invest In Marketing Now

The next several years will be very good for personal trust and investment management providers. Consumer groups most likely to use those services are expanding and perceptions of need only will increase. Most providers will prosper no matter what they do, but dramatic success will go to those institutions that invest in their ability to market and sell trust and IM.

The investment begins with good market intelligence — knowing who the best prospects are, how many there are, where they are, and how they can be approached effectively. Second, the best dollar for dollar returns will come from recruiting, training, supporting and rewarding the best sales personnel that can be found. Finally, per customer revenue will be maximized through good service and effective cross-selling. ◊

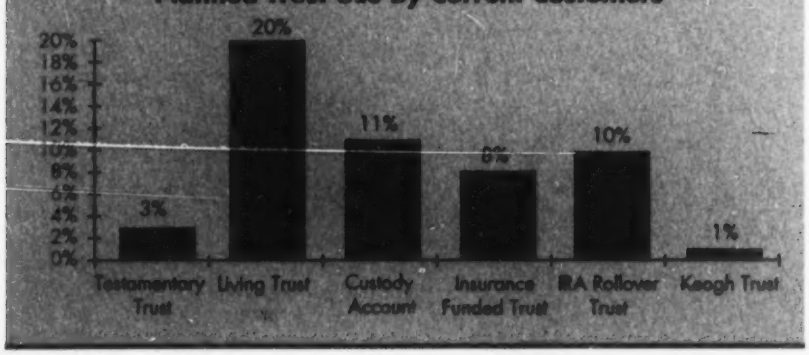
EXHIBIT 9

1991 Personal Trust Use Among The Affluent

Type	Number Of Households	Average Assets	Total Assets
Testamentary trust	790,000	$513,735	$405.8B
Living trust	1,264,000	$594,724	$751.7B
Custody	948,000	$220,506	$209.0B
Insurance funded	316,000	$478,925	$151.3B
IRA rollover	790,000	$235,238	$185.8B
Keogh trust	316,000	$247,199	$78.1B
Any trust	2,500,000	$680,690	$1,700.0B

EXHIBIT 10

Planned Trust Use By Current Customers



John DeMarco, Ph.D., senior vice president, manages PSI's domestic research programs which focus on retail banking, credit cards, financial services delivery and the affluent market for financial and investment products. Prior to joining PSI, DeMarco held a faculty position at the University of Georgia, Athens, where he taught statistics and management.

The Case For Advertising: Shining The Spotlight On Trust

The issue is quite simple: People won't know how good you are if you don't tell them

By **HAROLD G. BELL**
SourceOne Consulting Group
Atlanta, GA

The trust executive asked, "Why should I advertise. Nobody is going to give me a million dollar piece of new business on the basis of a newspaper ad. We have to go out and work for it," he insisted.

That statement is true enough — to a point. Advertising alone is not going to convince potential investors that their money is safe in your hands. Without advertising, however, you may not even have a shot at that business. At issue is the fact that potential customers simply do not realize how good you are — and they are not likely to find out if you don't tell them.

Part of the problem is image. The perception persists that trust departments are for the dead, not the living. As investment managers, they are seen as inefficient, too conservative and too expensive. Recent research shows that bankers today rank below CPAs, stockbrokers, attorneys and financial planners as a source of financial advice for the wealthy. In reality, bank trust departments have a better investment management record than any of these non-bank competitors. According to ongoing research conducted by CDA Investment Technologies Inc., for the American Bankers Association, trust departments continue to out-perform mutual funds, insurance companies, and investment advisors with their equity investment record.[1]

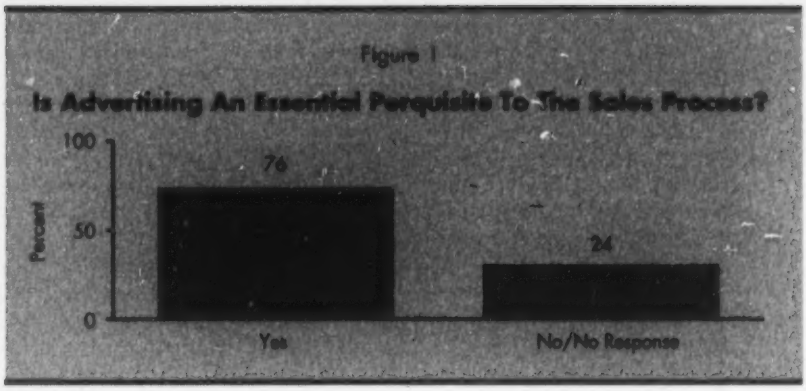
Closely related to the image problem is the fact that the target market for trust and investment services is becoming both younger and wealthier. With the aging of the "baby boom" generation, affluent consumers are growing in number, represent a relatively untapped market, and are young enough to offer the prospect of 30-year banking relationships. Many, however, are unprepared for the responsibilities involved in protecting and building on their wealth.[2] They need investment management advice.

Closely related to the image problem is the fact that the target market for trust and investment services is becoming younger and wealthier.

Selling successfully to this group begins with an understanding of how they perceive themselves. In his address to the 1991 Trust and Financial Services Conference, Dr. Bruce Clark, co-founder and senior vice president of Age Wave Inc. in Emoryville, Calif., pointed out that baby boomers reject the notion of old age and want to be considered active and attractive. In many cases, any awareness these individuals have of trust banking is focused on an uninviting notion of dealing solely with death and its consequence rather than asset management as a whole.[3]

While trust departments struggle with the image problem, their non-bank competitors are building market share by attracting young investors early with mutual funds and brokerage services. To keep them over the long-term, they have begun adding the trust services traditionally associated with banks. Banks, in turn, are countering with mutual funds and other services aimed at the younger investor — but too few customers realize that this full range of services is even available, not to mention that trust departments boast both a superior record for overall performance and highly competitive pricing.

"While banks rely on traditional



relationships with corporate customers, mutual funds have become more aggressive marketers," says Kenneth Hoffman, president of Phoenix-Hecht. "They also have gained a technological edge in daily valuation and participant recordkeeping."

However, that gap is narrowing, according to a recent survey co-sponsored by Phoenix-Hecht/Gallup and the Optima Group. Survey results show that most bank trust departments are now full-service providers: 97 percent provide investment management, 93 percent have prototype 401k plans, 88 percent offer trust accounting, and 86 percent provide participant recordkeeping.[4] As the distinction between bank trust departments and their non-bank competitors continues to blur, banks must make a much stronger effort to identify — and promote — their competitive advantages.

If you think lack of advertising doesn't really make a difference, ask your salespeople. Recently, we polled the trust and investment sales staff of a large Southeastern bank to find out what they consider to be their major obstacles to increased sales. An overwhelming majority (78 percent) named lack of marketing and advertising support — followed distantly by such "traditional" impediments to sales and service improvement as too much paperwork/too little time (64 percent) and an inadequate incentive program (28 percent).

Of the 78 percent who chose insufficient marketing support, 35 percent singled out poor support materials, including point-of-sale information. The remaining 65 percent called for advertising aimed at both correcting an image problem in the community (i.e., a reputation of being unresponsive) and promoting specific product and service capabilities. One sales person commented: "Long-time customers think we're great, but the younger group i ɔt as loyal. They don't conside.' u. n-vestment managers or as part of the estate planning team."

That brings us once again to the problem — and the challenge. Trust departments today are lingering in uncomfortable obscurity when they have the potential for market leadership. As profit margins shrink in other banking areas, the spotlight of potential shines ever more brightly on trust. Most trust departments have taken the important first steps toward improving market share. They have expanded their range of products and services in order to meet the competition on a level playing field. They have concentrated time and resources on building sales cultures dedicated to selling these new capabilities. They excel in all areas but one: marketing and advertising.

What is the current status of advertising by bank trust and investment departments? To find out, SourceOne Consulting Group, Atlanta, recently joined forces with MSI, an advertising agency based in Richmond, VA, to survey current trust marketing and advertising practices. Results indicate that while trust executives give lip-service to the importance of advertising, actual follow through is spotty, at best.

For example, 76 percent of survey respondents said they believe that advertising "is an essential prerequisite" to their sales process, (Figure 1) and 72 percent reported that they are planning to advertise during the current budget year. However, only

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43 percent said they have actual advertising plans, compared with the 90 percent who have overall strategic plans and 89 percent with formal marketing plans. (Figures 2-3) In other words, nearly half of all trust executives who plan to advertise are doing so without written guidelines to anchor that advertising securely to "big picture" strategic and marketing objectives. It seems that advertising, as desirable as it may be, is actually regarded as a marketing "add on" rather than a critical component of a marketing program.

How bank trust departments advertise also warrants a closer look. When asked what types of advertising they presently use, 94 percent of survey respondents said they spend their advertising dollars on brochures, followed by 62 percent who advertise in local newspapers. (Figure 4) After that, the advertising media mix drops dramatically. Only 29 percent advertise in regional or national print media, 16 percent on radio, and 13 percent on television. The problem here is that brochures are not, strictly speaking, "advertising" unless they are used as part of a direct mail advertising campaign. Certainly, they are critical weapons in the marketing arsenal, but should be positioned as educational material used to disseminate

Figure 2

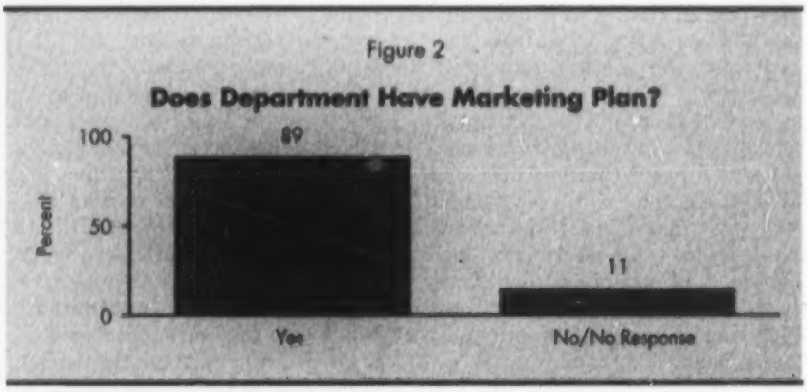


Figure 3

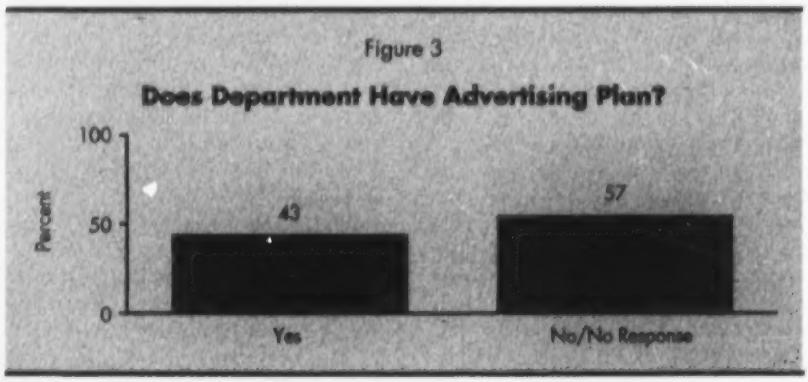
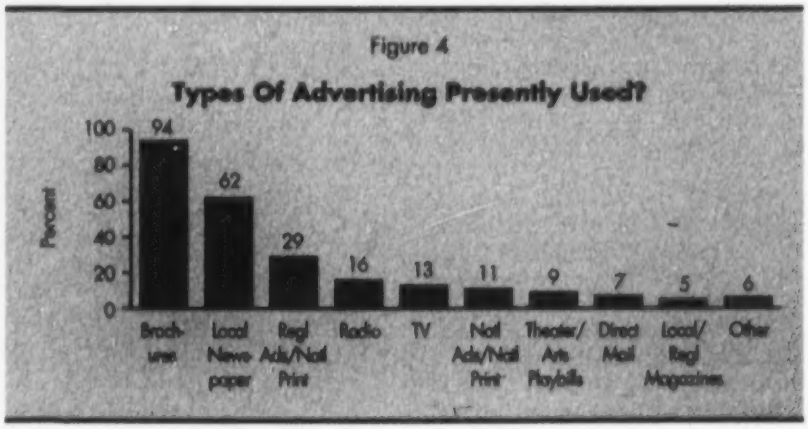


Figure 4



information at point-of-sale, or as leave-behinds after a sales call. When brochures are removed from the advertising mix used by survey respondents, a picture emerges of occasional newspaper and broadcast media advertising, but not much else.

Effective advertising begins with an overall marketing plan that clearly identifies target audiences and suggests strategies for reaching them. The next step is an advertising plan that develops and refines the marketing message, then pinpoints ways to reach the various target audiences with that message. The first step, however, is to decide what you want to say.

What Should You Advertise?

Ironically, considering that non-banks currently have the edge in trust and investment advertising, banks have the most to say. Investment results tell only part of the story. Compared with non-bank players, bank trust and investment departments come up winners all the way around.

Early in 1992, SourceOne Consulting Group surveyed members of the Michigan Bankers Association to identify their perceptions of trust trends and issues in today's highly competitive market. One of the most serious competitive disadvantages they face, respondents said, is that the market simply does not know how good they are or that they compare favorably with non-bank competitors.

- Approximately 50 percent of the respondents said that customers do not understand the value of the services they offer.
- More than 80 percent said the marketplace labors under the misconception that bank fees are higher than non-bank fees, adding that bank trust departments are hampered by "a poor perception of value by customers," including "overall poor performance."
- Furthermore, all of the survey respondents identified their ability to offer high quality customer service as their major competitive advantage. They added that important service areas where banks excel include the ability to offer personalized service, fast turnaround time, and convenient access to a local service provider.

Personalized, relationship-oriented service; superior investment performance; competitive pricing; and a wide, highly-competitive range of products and services from which to chose, add up to a potent advertising message.

There is no single answer to how much a bank trust department should spend on advertising. Ultimately, the "ideal" budget is determined by a number of factors, such as size of the institution, specific marketing objectives, market environment (such as the mix of urban, suburban, and rural populations) and the nature of the competition. Consequently, reported advertising expenditures vary widely.

For example, results of the SourceOne/MSI Advertising Survey show that the largest group of currently advertising trust departments (35 percent) have advertising budgets of less than $50,000 a year.

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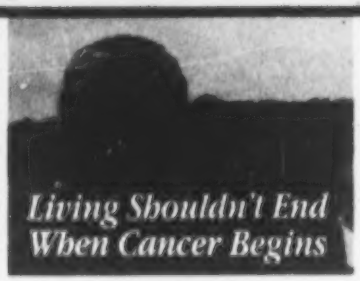

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July 28, 1992

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About 20 percent said they spend between $50,000 and $100,000 annually, and 10 percent spend between $100,000 and $200,000. (Figure 5) It is important to remember, however, that advertising is not a stand-alone item, but part of an overall marketing budget. The first question, therefore, is how much should you spend on marketing?

One convenient rule-of-thumb approach to budgeting is the "percentage of assets" method which first sets a total marketing budget for the bank as a whole, based on asset size. The formula is usually stated as "1/10 of one percent of assets" or "$1,000 in expenditures for each million dollars in assets."[5] So, an institution with assets of $5 billion might budget $5 million for marketing, while an institution with assets of $50 million would spend $50,000. In actual fact, the Bank Marketing Association reports that average marketing expenditures by banks in 1990 ranged from $12,800 for banks under $10 million in assets to about $5 million with assets of $5 billion or more.[6]

Of that overall budget, trust departments tend to get a relatively small piece — a little as 1 percent in smaller banks, and up to 6.3 percent in larger banks. Translated into dollar figures, that means that smaller banks spend an average of only $4,500 on overall trust marketing, while larger banks spend close to $212,000. The reality is that a marketing budget of $4,500 will not buy very much.[7]

Compare those figures with what your non-bank competitors are spending on advertising alone. In 1990, for example, Merrill-Lynch spent nearly $43 million on advertising. Shearson Lehman spent $25 million and Dean Witter spent $20 million. While expenditures of this magnitude may be out of the question for any single bank trust department, surely a larger expenditure is justified given banks' increasing emphasis on non-interest income.

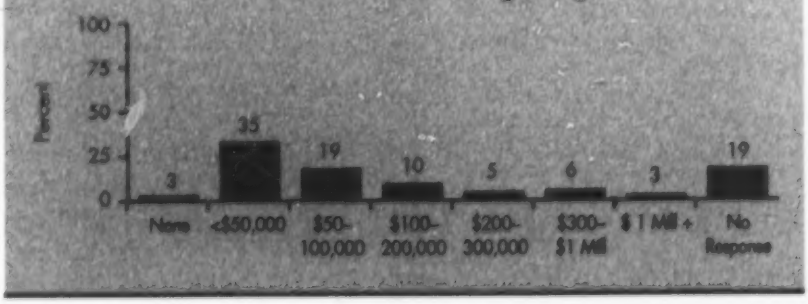
Another way to approach the budgeting process — the approach recommended by the Bank Marketing Association — is a three-step "objective and task" method, which includes: 1) determining the marketing objectives of the bank; 2) creating strategies and tactics to reach those goals; and 3) assigning estimated costs to the marketing strategies used to reach those goals.[8] In other words, decide where you want to go, then spend what you have to — or what you can — to get there. For example, if the bank's strategic objective is to increase trust revenue 20 percent over the course of a year, it makes sense to support that objective with a comparable increase in marketing expenditure.

Once the marketing budget is in place, the next step is to allocate those dollars to various marketing activities, which may include advertising, public relations, sales promotions, sales training and market research. According to the Bank Marketing Association's *Analysis of 1990 Bank Marketing Expenditures*, most banks earmark the largest percentage of their marketing budget for advertising: around 50 percent for banks with total assets under $250 million, compared with 59 to 66 percent for banks with assets of $250,000 and up.[9] Typically, the largest percentage of the advertising budget goes for newspaper advertising, followed by broadcast media and direct response advertising.[10]

What happens to those advertising dollars during a recession? Ideally, nothing. If budget items must

Figure 5

Current Year's Advertising Budget



be cut, the best approach is to trim other marketing plans and leave the advertising budget intact. Instead, put a hold on public relations and market research plans, or use black and white instead of color photos in the annual report. Sharply focused advertising is the most effective use of your marketing dollar. Any short-term savings achieved by cutting advertising will come back to haunt you in the form of decreased market awareness down the line.

And, as the Bank Marketing Association points out: "A normal to aggressive advertising posture can increase your market share when competitors have cut marketing spending. Numerous studies have documented the benefit of maintaining advertising exposures during recessions, when a reduced competitive presence offers greater awareness for every ad you run."[11]

Justifying advertising expenditures and keeping budgets intact often requires the ability to convince senior management that advertising — indeed, marketing in general — is not an expense item, but an investment with a concrete, bottom-line pay off. Unlike consumer product advertising, where success can be determined by how quickly items move off the shelves, the main objective of trust marketing in general is to build relationships. The results of trust advertising efforts are more difficult to track because they happen over a period of time and often cannot be quantified on an item-by-item basis. There are, however, several tracking methods you can use:

- Include advertising awareness questions in the ongoing marketing research you use with customers to monitor service quality improvement or uncover customer needs for product development purposes. Research methods might include customer focus groups, one-on-one interviews, telephone surveys, or print surveys distributed through the mail or in-bank at point of service.

  This approach tells you the customer's "awareness baseline" as you begin an advertising campaign and provides a tool for tracking changes in awareness as the campaign continues. Asking questions to determine what customers know about the products and services you offer will enable you to pinpoint specific areas for future advertising emphasis.

- Build advertising awareness questions into the regular routines of your salespeople and account managers. Ask new customers how they heard about you. Ask existing customers if they are aware of the products and services you currently advertise.

  Base at least some of your advertising on specific products and services. An emphasis on mutual funds or 401K plans, for example, is likely to have a direct impact on inquiries relating to those products — and ultimately, on sales increases.

- Include a response mechanism. Contact names, special

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- Finally, don't neglect the power of direct mail campaigns — both in themselves and as a support for other advertising efforts. A direct mail promotion of investment management services aimed at high-net-worth retail customers, for example, can be an effective supplement to a newspaper campaign emphasizing those services.

Whatever method or combination of methods you use to track advertising effectiveness, make an effort to measure earnings increases as well as response rates or awareness levels. In addition to providing additional justification for continued advertising expenditures, this information can indicate which advertising efforts are most effective and which products or services offer the greatest profit potential.[12]

Once upon a time, a major California bank took out full-page newspaper ads crowing about improved customer service — without doing much more than giving customer contact employees a pep talk and some "smile training." Bank management then sat complacently back and waited for customer response. And respond they did. The irate reaction to the same long lines and the same slow service was long and loud — and cost the bank customers.

Some banks are currently in the process of learning the same painful lesson with their investment advertising: Don't promise what you can't deliver. As customers responded to last year's falling interest rates by moving massive sums away from certificates of deposits (CDs) in hopes of finding higher returns, 15 New York City banks countered with extensive advertising campaigns designed to sell mutual funds, annuities and other investment products "right here in our lobby. Just bring in your money."

A visit to these banks, however, showed a considerable gap between what was offered and what the banks actually were prepared to deliver. At nine of the branches, for example, employees were not equipped to answer questions about the alternative investment products advertised, and several volunteered in-

Figure 6

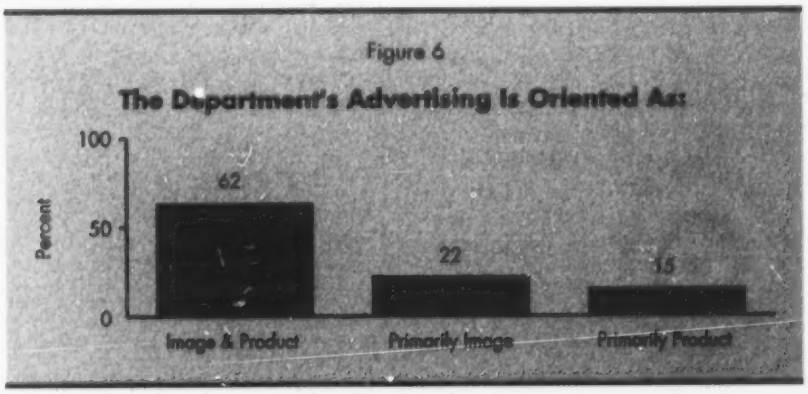
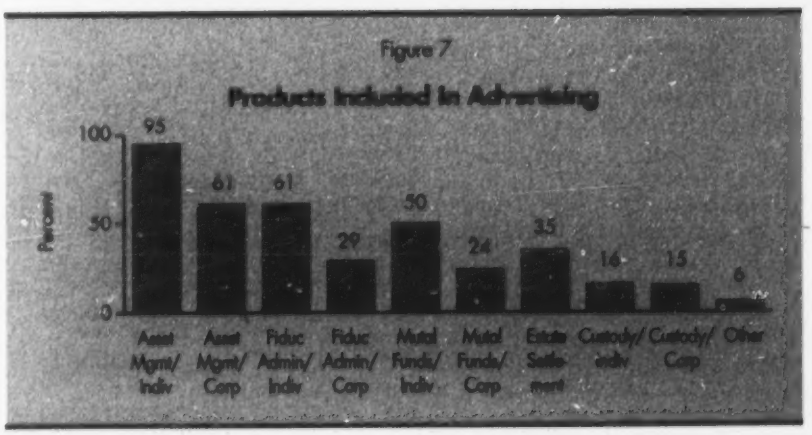


Figure 7



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correct information. At one bank, there was nobody available to talk to at all. In addition, bank employees rarely took the trouble to ask for the prospective customer's name, address and phone number.[13] By comparison, similar shopping at some non-bank competitors uncovered both extensive product knowledge and a more aggressive sales stance.

The problem is not a new one. Bank employees at the customer contact level, for example, are frequently heard complaining that "no one ever tells us anything," or "we learned about our new product from a newspaper ad this morning." And nothing is likely to cancel out an advertising effort more quickly than employees who don't know anything about the product in question.

Advertising does not exist in a vacuum. As trust departments expand their range of products and services, sales success depends ultimately on the ability of sales people to identify customer needs, match those needs with the appropriate products, then close the sale. Training in product knowledge and in cross-selling techniques is a sales culture cornerstone — but not the only one.

We continually encounter trust executives who wonder why their efforts to build a sales and service culture are not working. "We have the vision," they say. "We have translated that vision into reachable objectives. We have trained our staff. Why isn't anything happening?" Often, the answer is inadequate marketing support — led by the absence of that great marketing "expendable," advertising. The other essential components of a sales and service culture may be in place, but prospective customers simply aren't getting the message.

And the message you need to deliver is: "We are not who you think we are." Customer perceptions of what trust departments have to offer have little bearing on the true reality. If those perceptions are not changed through advertising, then how do you plan to change them? And rest assured, if the status quo continues, trust departments will surely forfeit their potential for market leadership. ◊

FOOTNOTES

1. Randy Welch, "A Billion Here, A Billion There," *Bank Director*, Third Quarter. 1992, p. 24.
2. Robert S. Cole, "To Woo the Newly Rich, Spread the Word," *American Banker*, July 28, 1992, p. 4.
3. J. Ginovsky, "Think About It!" *ABA Banker's Weekly*, March 12, 1991, p. 12.
4. Karen McCombs, "401k Plans: Know Your Customer," *ABA Banking Journal*, June 1991, p. 52.
5. "Analysis of 1990 Bank Marketing Expenditures," Bank Marketing Association, Chicago, IL, p. 3.
6. Id. at 8.
7. Id. at pp. 25-26.
8. Id. at 4.
9. Id. at 8.
10. Id. at 14.
11. Id. at 6.
12. Id. at 7.
13. Susan Antilla, "New York Banks Are Fumbling A Service They Tout," *New York Times*, August 2, 1992.

Harold G. Bell, Jr., is executive director of SourceOne Consulting Group, an Atlanta-based financial consulting firm specializing in strategic earning improvements for bank trust departments.

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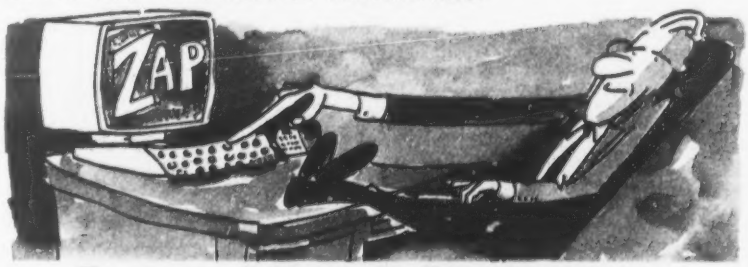

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